

USAID

OFFICE OF INSPECTOR GENERAL

Audit of USAID-Financed Technical Assistance for Agricultural Activities in Egypt

Audit Report No. 6-263-02-004-P

September 9, 2002



Cairo, Egypt



RIG/Cairo

September 9, 2002

MEMORANDUM

FOR: Director, USAID/Egypt, Willard J. Pearson, Jr.
Director, Procurement Office, USAID/Egypt,
Carlton Bennett

FROM: RIG/Cairo, Darryl T. Burris /s/

SUBJECT: Audit of USAID-Financed Technical Assistance for Agricultural
Activities in Egypt

This report presents the results of our audit. It contains one recommendation for the Contracting Officer to add in a contract Statement of Work the task level milestones that were omitted during the contract modification process.

Based on the documentation provided by the Contracting Officer,
Recommendation No. 1 is closed upon report issuance.

I appreciate the cooperation and courtesy extended to my staff during the audit.

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Summary of Results

Regional Inspector General/Cairo audited USAID-financed technical assistance for the agricultural sector in Egypt to determine whether USAID/Egypt monitored the assistance in accordance with USAID's Automated Directives System (page 4).

USAID/Egypt generally followed the Automated Directives System in monitoring the technical assistance. However, the Mission needed to more consistently modify contract Statements of Work when changes occurred (page 4).

Background

Cognizant Technical Officers perform a critical role in monitoring the performance of contractors to ensure that results are achieved. USAID's Automated Directives System¹ says that assessing performance of contractors in the achieving stage normally refers to whether the outputs produced by the contractor are timely and of acceptable quality. Outputs are specifically described in contract Statement of Works. Their production and use are critical to achieving results. Delays in completing outputs, or problems in achieving output quality, provide an early warning that results may not be achieved as planned.

USAID/Egypt financed technical assistance for the agricultural sector in Egypt through three activities: (1) Agricultural Technology Utilization and Transfer Program, (2) Agricultural Policy Reform Program, and (3) Agriculture Led Export Business Project under the Growth through Globalization Program. Through these three activities, USAID/Egypt awarded contracts to eight contractors. As of September 2001, total commitments for the contracts amounted to \$79,997,931, with incurred expenditures of \$73,758,723.

The Agricultural Technology Utilization and Transfer Project had three components:

- A horticulture component intended to transfer new horticulture production, post-harvesting and marketing technologies to the private sector.
- A food crops component funded research aimed at resolving the major constraints to increased productivity of wheat, maize, rice, and fava beans.
- A biotechnology component supported genetically engineered crop production to introduce stress and pest resistance into high value crops.

The prime technical assistance contract for this Project was a three-year, \$14.5 million activity with expected outcomes to help increase the value of horticultural exports. The contract was signed in April 1996 and was originally scheduled to operate through April 1999. The contract was extended to September 2002.

¹ ADS.202.3.4 *Monitoring Quality and Timeliness of Key Outputs*.

For the Agricultural Policy Reform Program, USAID executed contracts for six contractors to provide technical assistance. These contracts obligated \$42.7 million in technical assistance.

One contract selected for review under this Program was intended to help: (1) evaluate and formulate new strategies and policies to achieve water use efficiency and (2) develop policies on drainage to increase awareness and encourage water conservation and pollution prevention, particularly among farmers. This contract was a \$11.3 million Task Order under an Indefinite Quantify Contract signed in August 1997, with a revised completion date of March 31, 2002.

For the Agriculture Led Export Business Project, USAID awarded a three-year, \$14.7 million contract with an optional three-year, Phase 2 funding extension. The contract was signed in February 1999 and was scheduled to end on December 31, 2001. A follow-on award was signed for additional funding through December 31, 2004. The purpose of this Project was to increase exports of Egyptian processed foods. The Project was intended to focus on helping Egyptian food processors diversify their export markets by providing market information, new food processing technologies, and product improvement services for target products.

Audit Objective

RIG/Cairo performed this audit to answer the following question:

- Did USAID/Egypt monitor the technical assistance provided for Egypt's agricultural sector in accordance with the USAID Automated Directives System?

Appendix I describes the audit's scope and methodology.

Audit Findings

Did USAID/Egypt monitor the technical assistance provided for Egypt's agricultural sector in accordance with the USAID Automated Directives System?

USAID/Egypt generally followed the USAID Automated Directives System in monitoring the technical assistance provided for Egypt's agriculture sector. However, USAID/Egypt needed to place greater emphasis on the contract modification process.

For the three contracts selected for review, USAID/Egypt generally followed the requirements of the Automated Directives System for the following items tested:

- Technical Officers reviewed and approved deliverables and performance reports.

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- Technical Officers monitored contract performance and maintained a work file for the contracts monitored.
 - Technical Officers approved all interim payments submitted.
 - Technical Officers prepared annual Contractor Performance Reports.

For example, the files for the three contracts showed that the Technical Officers reviewed the progress reports of the contractors, matched that progress with work objectives, and referred problems and issues to the Mission's Strategic Objective Team.

In addition to the above monitoring, the Economic Growth Directorate used another tool through its monitoring and evaluation unit. This unit performed a client satisfaction review to assess the performance of activities supported under the Growth through Globalization Results package. This tool was used to obtain direct feedback from clients on the benefit, value, and results of services provided.

For two of three contracts, however, the contractors' work changed without always obtaining formal Contracting Officer approval for a modified Statement of Work. The following section discusses this issue.

USAID/Egypt Needed to Better Modify Contracts as Activities Changed

USAID's Automated Directives System requires Cognizant Technical Officers to refer contract changes to the Contracting Officer for formal action and approval. For two contracts reviewed, the contractors' work changed without consistently obtaining formal Contracting Officer approval for a modified Statement of Work. For one instance, USAID/Egypt changed the task deliverables from those specified in the Statement of Work to those specified in annual work plans, but the Mission did not completely formalize this change through a contract amendment. For the second contract, an error occurred in the preparation of a modification to change the Statement of Work. Without formal approval of changes to contract work requirements, USAID/Egypt (1) risked entering into unauthorized commitments² with the contractors and (2) lacked a solid basis to objectively evaluate the effectiveness of contractor performance.

USAID recognizes that adjustments in tactics should be made when conditions warrant.³ Adjustments may include developing an entirely new activity and

² FAR Subpart 1.602-3 defines an unauthorized commitment as an agreement that is not binding because the Government representative who made it lacked the authority to act on behalf of the Government. Department of Defense examples of an unauthorized commitment are (1) authorizing new work to the contract without notifying the Contracting Officer or having a modification in place or (2) directing the contractor in any way that may be deemed outside of the scope of work.

³ ADS 202.3.4.3 *Making Necessary Adjustments*

instrument, or may simply mean modifying and changing existing activities. In either case, a change requires involving the Contracting or Agreement Officer early in the process.

Involving the Contracting Officer early in the contract modification process can facilitate compliance with the Federal Acquisition Regulation,⁴ which does not allow the Contracting Officer to delegate the contract modification function. This Regulation says that only Contracting Officers acting within the scope of their authority are empowered to execute contract modifications on behalf of the Government. Other Government personnel shall not:

- execute contract modifications;
- act in such a manner as to cause the contractor to believe that they have authority to bind the Government; or
- direct or encourage the contractor to perform work that should be the subject of a contract modification.

To help ensure compliance with the Federal Acquisition Regulation, USAID's Automated Directives System requires Cognizant Technical Officers to report all contract problems and refer contract changes to the Contracting Officer for formal action and approval.⁵ These Technical Officers have the responsibility for monitoring contractor performance.⁶ In carrying out their responsibilities, the Technical Officers should ensure that changes in the work to be performed or any changes in the delivery schedule are formally put into effect by written supplemental agreements or change orders. The Contracting Officer must then issue these documents before the contractor proceeds with the changes.

Contrary to the preceding requirements, the contractors' work changed without always obtaining formal Contracting Officer approval of the changes to the Statements of Work for two contracts: (1) the prime contract under the Agricultural Policy Reform Program and (2) the prime contract under the Agriculture Led Export Business Project.

Prime Contract Under the Agricultural Policy Reform Program -

USAID/Egypt changed the task deliverables from those specified in the Statement of Work to those specified in annual work plans, but the Mission did not completely formalize this change through a contract amendment.

USAID/Egypt executed a Task Order under an Indefinite Quantity Contract to provide technical assistance in support of the Egyptian Ministry of Water Resources and Irrigation efforts to increase the efficiency and productivity of

⁴ FAR Subpart 43.102

⁵ Chapter VIII App. 1, Guidebook for Managers and Cognizant Technical Officers on Acquisition and Assistance, issued November 1998.

⁶ ADS 202.3.4 *Monitoring Quality and Timeliness of Key Outputs*

Egypt's Nile water system under the Agricultural Policy Reform Program. The overall objective of this Task Order was to help this Ministry accomplish the benchmarks for a USAID cash transfer. The Task Order, effective May 7, 1997, contained a Statement of Work that included 53 activity tasks for the contractor to accomplish.

According to the responsible USAID/Egypt official, the Mission operationally switched to establishing performance indicators in annual work plans to achieve contract objectives after executing the contract. Each year's tasks were decided at an annual conference held with USAID, contractors, the Ministry, and other interested parties to formulate, refine, and approve the benchmarks for a USAID cash transfer. After the conclusion of each conference, the contractor then prepared an annual work plan and presented it to USAID and the Ministry of Water Resources and Irrigation at another meeting. The comments and suggestions provided at this meeting were then incorporated into the final work plan.

USAID/Egypt did modify the contract in February 2000, revising the Statement of Work to read *"for the period starting July 1, 2000,...Specific work within the task areas found below will be developed and agreed to in annual work plans."* However, this modification did not address the original 53 tasks in the Statement of Work prior to July 1, 2000, nor did it ratify the use of annual work plans to establish contract work requirements prior to this modification.

USAID/Egypt changed to defining task deliverables in annual work plans to better achieve its strategic objective of policy reform. However, the change was not completely formalized through a contract amendment that addressed the 53 tasks in the original Statement of Work. The Technical Officer did not believe it was necessary to amend the contract because the contractor had satisfactorily performed the annual work plans, which ultimately achieved the Mission's overall goal of policy reforms. The Technical Officer also said that only three of the tasks in the original Statement of Work were not accomplished and the others were implemented under the annual work plans. As a result, we are not making a recommendation to modify this contract.

Prime Contract Under the Agriculture Led Export Business Project - The Contracting Officer did not amend the Statement of Work to reflect all changes in contractor milestones for the second and third year of the contract. USAID/Egypt inadvertently omitted the changes to the task level milestones when modifying the second year milestones for the Statement of Work. For the third year deliverables, the Mission did not formally change the contract level milestones, although that was the intent of both USAID and the contractor.

The prime contract under the Agriculture Led Export Business Project was a Cost-Plus-Award-Fee-Contract, and the contractor's fee was originally based on

performance. The contract was later changed to a Cost-Plus-Fixed-Fee. The contract Statement of Work had three levels of objectives or milestones:

1. The first level was the contract level milestone, which was *"to significantly increase, to at least \$73 million and 63,974 metric tons by the end of the first three years, private sector processed food exports."*
2. The second level was the task level milestone. An example of this level of milestone is *"50% of targeted agribusiness companies using new technologies or have developed new product lines"*.
3. The lowest level objective was the task level indicator. An example of a task level indicator is *"target firms participate in 5 trade fairs and/or study tours during Yr 2."* According to the Contracting Officer, the contractor was paid to accomplish this level of objectives.

USAID/Egypt modified the contract when the contractor and the Technical Officer proposed a change to its second year milestones. Both considered this modification necessary because the original baseline data provided in the Request for Proposal was obsolete by the time the contract was awarded. In executing the contract amendment, however, the Mission inadvertently omitted the modifications for the task level milestones that both the Mission and the contractor had intended (See Appendix II). The Contracting Officer did approve these changes through a later modification to the Statement of Work when informed about this error during the audit.

The second issue occurred when the contractor requested a change to its third year milestones under the Statement of Work. The Technical Officer did follow USAID guidance by preparing a written document that reflected the proposed milestone changes. According to the Technical Officer, by the time this written document was approved, an evaluation team for the activity was onboard. Therefore, the document didn't proceed to the Contracting Officer and was halted. USAID/Egypt later submitted a modification to change the contract level milestones.

USAID/Egypt inadvertently omitted the task level milestones to Contract Modification Number 3 because of complexities involved with this kind of contract. The Technical Officer attributed the error to a constant need to modify this particular type of contract. According to the Technical Officer, this was the only technical assistance contract his Directorate had awarded that had a Statement of Work covering three years of milestones/indicators. In addition, the deliverables were broken down by trimester, which totaled up to more than 144 task level indicators. Therefore, according to USAID/Egypt, it usually took three months to do a contract modification when it involved changing contract deliverables. The Mission switched to annual work plans for this contract so that the deliverables could be more responsive annually to the industry needs and cope with the dynamic market changes.

We recognize the Technical Officer's assessment that a Statement of Work covering three years of milestones is difficult to write. This may explain why the Statement of Work (See Appendix II) for the Agriculture Led Export Business Project contract was not always clearly written or adequately defined. For example the task level milestone, *"50% of targeted agribusiness companies using new technologies or have developed new product lines"* did not lend itself to measuring when and if the milestone was accomplished. First, there was no indication of the number of companies to be targeted. Second, the milestone did not describe what new technologies should be used that will achieve the milestone.

In contrast, other milestones were better defined and more closely matched the contract level milestone to significantly increase private sector processed food exports. For example the milestone to train 100 processing firms in international quality requirements for European, U.S. or Gulf markets described more clearly what was being measured and had a connection to increasing food exports.

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Without formal approval of changes to contract work requirements, USAID/Egypt (1) risked entering into unauthorized commitments with the contractors and (2) lacked a solid basis to objectively evaluate the effectiveness of contractor performance.

Under the prime contract for Agriculture Led Export Business Project, the contractor worked on the 144 task level indicators but the higher task level milestones had not been corrected and approved by the Contracting Officer until a later modification. Without formal approval of changes to a contractor's Statement of Work, disputes over contract deliverables could result.

Statements of Work should provide an objective measure to evaluate the effectiveness of contractor performance. USAID Guidance recognizes that the Statement of Work is probably the single most critical document in the acquisition processes. It describes the work to be performed or the service to be rendered and desired results, and it defines the respective responsibilities of the Government and the contractor. Statements of Work that do not define exactly what is wanted can generate contract management problems and result in unsatisfactory contractor performance, delays, disputes, and higher contract costs. To avoid such problems, we are making the following recommendation:

Recommendation 1: We recommend that the Contracting Officer, USAID/Egypt, modify the Statement of Work for the prime contract under the Agriculture Led Export Business Project to add the contract and task level milestones that were omitted during the contract modification process.

USAID/Egypt agreed that errors occurred when modifying the prime contract under the Agriculture Led Export Business Project. Therefore, the Contracting Officer amended the contract to add the contract and task level milestones that had been missing from the original modifications. Based on the documentation provided by the Contracting Officer, Recommendation No. 1 is considered closed upon report issuance.

**Management
Comments and
Our Evaluation**

USAID/Egypt did not comment on the draft report.

**Scope and
Methodology****Scope**

The audit was performed in accordance with generally accepted government auditing standards and assessed whether USAID/Egypt monitored the technical assistance provided to Egypt's agricultural sector in accordance with the Automated Directives System. USAID/Egypt initially requested that we review the technical assistance under the Agricultural Technology Utilization and Transfer Program. We expanded the objectives of the audit to include all technical assistance contracts for the agricultural sector by adding two additional USAID financed activities: (1) Agricultural Policy Reform Program and (2) Agriculture Led Export Business Project under the Growth through Globalization Program.

The audit was originally designed to assess whether the technical assistance produced the results called for by the contracts. However, we encountered difficulty doing so for several reasons. First, the contracts selected for review were issued during a time when USAID was undergoing reengineering, and different processes and rules applied. After we began our work, we learned that further changes were expected and that one of the OIG's Washington Divisions would be leading some audit efforts to assist in the contracting process. Second, for the Indefinite Quantity Contract that we selected, we learned that more than one contractor contributed to the outputs in the annual work plans. In light of the fact that USAID planned to use two models of Indefinite Quantity Contracts (down from 15), we terminated further testing. Third, we encountered issues with the clarity of some scopes of work. Fourth, we encountered some issues where the annual work plans were used to establish contractor work requirements rather than the Contracting Officer-approved requirements specified in the Statements of Work. These latter two issues impaired the ability of both USAID/Egypt and our auditors to objectively measure and evaluate contractor performance. Since these issues are covered under the first audit objective, we decided to drop the second audit objective to assess technical assistance results.

Our audit covered management controls related to monitoring. Those controls included:

- Reviewing and approving deliverables and performance reports.
- Maintaining a Cognizant Technical Officer work file.
- Reporting variations, proposed substitutions, and problems.
- Recommending modifications.
- Analyzing financial reports.
- Approving interim payments.
- Preparing annual Contractor Performance Reports.

Fieldwork was performed intermittently at USAID/Egypt and at the Agriculture Led Export Business's offices in Cairo, Egypt from May 2001, through June 2002.

We reviewed USAID's monitoring over 3 of 8 agricultural technical assistance contracts. The amount awarded under these three contracts totaled \$45.9 million.

Methodology

The audit began with a series of meetings with program officials, and reviews of relevant documents to gain an understanding of the Mission agricultural sector activities as they pertain to the USAID-financed technical assistance activities mentioned above.

To determine whether USAID/Egypt monitored the technical assistance provided to its agricultural sector activities in accordance with the Automated Directives System, we interviewed USAID/Egypt officials to obtain their views on monitoring mechanisms in place. We also obtained and reviewed contractor quarterly and annual reports provided to the Mission, as well as various contract and subcontract agreements, and related contract amendments. In reviewing the contracts and subcontracts, we evaluated the Statements of Work and compared them with contractors' quarterly and annual performance reports. Further, we reviewed pertinent criteria (Automated Directives System Section 202, Federal Acquisition Regulation Subpart 44.2, and the Guidebook for Managers and Contracting Technical Officers on acquisition and assistance).

We judgmentally selected the three contracts for audit by selecting one contractor from each of the three technical assistance activities.

Because this was a performance audit of judgmentally selected contracts from a small universe, we identified reportable issues based on factors of significance and sensitivity rather than upon a predetermined materiality threshold. Our conclusions are limited to the items tested.

**Omitted Task
Level
Milestones**

Agriculture Led Export Business Project

Task 1 - Expand targeted export marketing product information	
Original Task Level Milestones	Omitted Task Level Milestones that Were Included in Modification 10
Milestone 1	
MarketPulse Information System (MPS) technology used for management in 50% of target agribusinesses.	MPS or similar internal systems routinely accessed as a part of the business activities in 50% of the targeted agribusinesses.
Milestone 2	
MPS demonstrating high client use through various dissemination channels including internet.	MarketPulse Egypt Information System (MPE) reaching clients through various dissemination channels, including internet.
Task 2 - Expand processing technologies and services	
Original Task Level Milestones	Omitted Task Level Milestones that Were Included in Modification 10
Milestone 1	
80 targeted agribusiness companies using new technologies or have developed new product lines.	50% of targeted agribusiness companies using new technologies or have developed new product lines.
Milestone 2	
80 companies using quality control management practices and 50 companies meeting HACCP and/or ISO standards.	50% of targeted agribusiness companies using quality management practices.
Task 3 - Expand international marketing, management, and technical skills	
Original Task Level Milestones	Omitted Task Level Milestones that Were Included in Modification 10
Milestone 1	
50 agribusinesses knowledgeably conducting export market penetration and using improved management techniques.	75% of targeted agribusinesses trained in various business development disciplines (including international marketing and management concepts), and 50% applying improved methods.
Milestone 2	
100 processing firms have been trained in international quality requirements for European, U.S. or Gulf markets, and 50% are applying improved methods.	None.

Omitted Task Level Milestones

Task 4 - Enhance association and private sector export services	
Original Task Level Milestones	Omitted Task Level Milestones that Were Included in Modification 10
Milestone 1	
Improve trade association and service firm assistance to their agribusiness clients as demonstrated by membership increases in targeted trade associations up by 40% and targeted service firm business increased by 20%.	Trade association and service firm assistance to their agribusiness clients improved, as demonstrated by increased membership in targeted trade associations by 10%. Targeted service firms will have increased business with food processing firms by 5%.
Milestone 2	
Membership of 10 targeted associations or advocacy groups actively engaged in policy dialogue with Egyptian government and membership of 8 associations are engaged at the international level.	4 associations involved in domestic policy dialogue, based on their strategies and work plans; and 2 associations involved in advising the government on international policy and regulatory issues affecting private business, especially exporters.
Task 5 - Expand and enhance strategic alliances	
Original Task Level Milestones	Omitted Task Level Milestones that Were Included in Modification 10
Milestone 1	
25 strategic alliances formed and Egyptian companies accessing new markets and technologies.	25 strategic alliances formed and Egyptian companies accessing new markets and technologies.
Milestone 2	
80% of target Egyptian agribusinesses using multiple sources for accessing information, technology, inputs, markets, and strategic alliances.	50% of target agribusinesses using multiple sources for accessing information about technology, inputs, markets, and strategic alliance opportunities.